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July 26, 2013

***By Electronic Filing*** ***Notice of Ex Parte Presentation***

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Re: WC Docket No. 12-375, Rates for Interstate Inmate Calling Services***

Dear Ms. Dortch:

On July 25, 2013, Vincent Townsend, President of Pay Tel Communications, Inc. ("Pay Tel"), Don Wood of Wood and Wood Associates, and Marcus Trathen of Brooks, Pierce, McLendon, Humphrey & Leonard, LLP met with Pamela Arluk, Douglas Galbi, Gregory Haledjian, and Eric Ralph of the Wireline Competition Bureau. In this meeting, Pay Tel discussed its Inmate Calling Services Cost Presentation (the "Cost Study") filed in this proceeding on July 23, 2013, as well as issues generally related to inmate calling services ("ICS") cost development.

Pay Tel's consultant, Don Wood, presented the results of Pay Tel's ICS Cost Study, a summary of which is attached hereto.[1] The summary shows that Pay Tel's cost for collect/prepaid collect calls[2] is \$0.33/call when including the cost of commission payments and \$0.21/call when excluding the cost of commission payments. Mr. Wood explained that this cost was developed using methodologies that the Commission has historically and consistently relied upon and was based on Pay Tel's documented costs from audited financial statements for the base year 2012 and forward-looking costs for 2013-2015 for all Pay Tel facilities and across all Pay Tel calling types. Mr. Wood explained that this cost represents the minimum amount that Pay Tel must recover per minute for all call types (i.e., local and long distance) in order to cover its costs of providing ICS.

Mr. Wood also noted that the Cost Study presented the additional costs associated with (1) deployment of Continuous Voice Biometric Identification technology, which helps ensure facility safety by using biometric techniques to identify parties to a conversation and is currently deployed in a number of Pay Tel facilities; (2) video relay service for the hearing impaired, a technology discussed at

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[1] The remaining portions of Pay Tel's Cost Study were filed under confidential seal with the FCC; Pay Tel requested confidential treatment thereof pursuant to Sections 0.457 and 0.459 of the Commission's rules. *See* Pay Tel's Request for Confidential Treatment, WC Docket No. 12-375 (July 24, 2013).

[2] "Prepaid collect" refers to billing relationships established by Pay Tel directly with the called party. This currently accounts for approximately 67% of Pay Tel's billed calls.

the FCC's recent ICS workshop; and (3) the processing of payments for ICS services. Mr. Wood described how the costs for each of these services were developed and documented in the Pay Tel Cost Study.

Pay Tel noted that its ICS development reflects the particular costs associated with the provision of services to jails as opposed to prisons, namely: the high turnover experienced in jails resulting in the establishment of a greater proportion of direct billing and prepaid account relationships per population than in prisons (a significant driver of ICS costs); the high number of free calls required in jail settings as opposed to prisons; the requirement imposed by jails to integrate ICS with commissary systems; the greater use of lower-cost debit accounts for ICS calls from prisons as opposed to higher-cost prepaid accounts for ICS calls from jails; and the much greater base of calling minutes over which costs may be spread in the prison setting. Consistent with its positions of record in this proceeding, Pay Tel urged the adoption of a tiered rate approach distinguishing between jails and prisons should the Commission move forward with the adoption of new rate restrictions in this proceeding.

Pay Tel also discussed its view that elimination of ICS providers' payments to facilities, as reflected in the Commission's prior treatment of commission costs, could leave facility administrators without the funds to cover the legitimate costs required to operate phones in a safe and secure manner, thereby risking cessation or diminution of ICS availability. Pay Tel advocated its view that if the Commission decides to set rates that do not include the cost of commissions, the Commission should adopt a cost recovery mechanism for facilities as a component of any ICS reform.

Pay Tel also discussed its view that the Commission should address the growing problem of add-on fees that drive up the cost of ICS to consumers. In support of this position, Mr. Townsend discussed Pay Tel's recent experiences with the RFP Process for a contract for the Albemarle-Charlottesville Regional Jail—a facility where Pay Tel had been the service provider for sixteen years. After all Proposals were submitted the consultant retained by the jail (Praeses) requested that all vendors, as a condition of consideration to continue in the evaluation process submit a new offer including the following impacts on Pay Tel: (1) increase the payment processing fee to $5.95 (double the current fee charged by Pay Tel), (2) charge a new fee of $3.00 for refunds, (3) raise the current calling rates, and (4) increase its commission offer to the facility. Pay Tel declined to double its payment fee and charge for refunds, but did increase its commission offer; ultimately, the contract was awarded to a competitor (ICSolutions) that agreed to impose the requested consumer fees and provide the jail a 78.1% commission with $24,000/month in guaranteed payments.

Mr. Townsend also discussed Pay Tel's recent experience with the Roanoke City Jail RFP process another facility where Pay Tel had been the service provider for eight years. In connection with a re-bid of that contract, the contract was awarded to a competitor (Securus) that proposed a 78.3% commission payment to the jail (with the final rate agreed upon in the contract at 68.8%). Included in this bid was Securus's PayNow™ program, which provides single call rates at $14.99/call; Securus agreed to pay $1.60 (10.7%) of each such payment to the jail. Securus also offered its Text2Connect™ program which charges $9.99 per single call billed to a cell phone through a premium text message. Securus agreed to pay $.30 (3%) of each such payment to the jail.

Finally, Mr. Townsend reiterated Pay Tel's position in the record regarding the potential for massive rate arbitrage—and the attendant fraud and security concerns associated therewith—should the Commission address only one aspect of ICS rates. Mr. Townsend discussed his recent experiences in establishing "local number" accounts with five different alternative ICS providers—ConsCallHome, Prison Calls Online, Jail Call Services, Prison Call Solutions, and Inmate Direct. Mr. Townsend established accounts with each company using a falsified name, “Abraham Lincoln,” with a fictional address of Pennsylvania Avenue in Washington, D.C., and he was able to secure numbers local to the Blue Ridge Regional Jail in Lynchburg, Virginia. Two of the alternative providers, on their own initiative, supplied Pay Tel with a falsified home address in Lynchburg, Virginia to give to the ICS provider when it prompted Mr. Townsend for an address. One of the alternative providers even gave detailed instructions on how to respond to questions from the ICS provider (Securus) about the identity of the account holder and provided a falsified Verizon billing statement corresponding to the new local number. The complicity of these companies in establishing false billing addresses and account information highlights the very real security problems associated with rate arbitrage, which Pay Tel has discussed in its various filings in this proceeding. As shown in the attached depiction (“Potential Impact of Interstate Rate Cap on Arbitrage”[3]), if the Commission were only to adopt the Petitioners’ proposal there would be 97% increase in the number of called parties with a rate arbitrage incentive which, given the availability of companies that are ready and willing support the establishment of fictional and anonymous accounts, would cause massive disruption in ICS in jails.

Attached are copies of non-confidential written materials referenced during the meeting.

In accordance with Section 1.1206 of the Commission’s rules, this letter is submitted for inclusion in the record of the above-captioned proceeding. Please do not hesitate to contact the undersigned should any questions arise concerning this letter or the issues discussed herein.

Sincerely yours,

/s/ Marcus W. Trathen
Marcus W. Trathen

cc: Pamela Arluk (via email)
Doug Galbi (via email)
Gregory Haledjian (via email)
Eric Ralph (via email)
Deena Shetler (via email)
Kalpak Gude (via email)
Randolph Clarke (via email)
Lynne Engledow (via email)
David Zesiger (via email)
Rhonda Lien (via email)
Rebekah Goodheart (via email)

[3] Previously submitted by Pay Tel in an *ex parte* presentation dated July 3, 2013.